



Investment Office

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October 17, 2005

AGENDA ITEM 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Responsible Contractor Annual Report
(July 1, 2004 – June 30, 2005)
- II. PROGRAM:** Real Estate
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

In accordance with the approved CalPERS Responsible Contractor Program Policy, this agenda item reports compliance for fiscal year 2004-2005 to the Investment Committee. Attached is the consolidated Responsible Contractor Annual Report for all Real Estate Equity Advisors and the Housing Program Partners (Exhibits I-III).

Real Estate Equity Partners/Advisors

The Core and Non-Core Equity Real Estate Partners employed Responsible Contractors for 99.6% and 88.0% of all qualified contracts totals, respectively, for operating expenses, tenant improvements and other capital expenditure from July 1, 2004 through June 30, 2005. This is equal to an overall compliance ratio of 92.9%, which represents over \$592 million in payments to responsible contractors for the current reporting period.

Staff will continue to monitor our partners and related projects to ensure a high level of overall participation.

Housing Program Partners

Housing Program Partners awarded approximately \$1.803 billion of \$2.026 billion in total contracts to Responsible Contractors for the fiscal year 2004-2005. This represents an overall compliance ratio for the Housing Program Partners of 89.0%, an increase of 10.7% from the prior reporting period.

These figures demonstrate an increase of overall compliance by the Housing Program Partners for the third consecutive year. The current reporting period marks the highest since inception participation levels to date.

Total Real Estate Partners

For the fiscal year 2004-2005, the Real Estate Equity Program has a combined compliance ratio of 90.0%; this represents a 8.0% overall increase as compared to the prior reporting period. The current reporting period marks the second consecutive year of increased program participation and the highest compliance percentages since the program's inception. Staff remains dedicated to promoting increased participation in the Responsible Contractor Program.

Responsible Contractor Complaints:

For the fiscal year 2004-2005, CalPERS staff logged a total of three (3) complaints, all of which have been addressed. A detail of the current complaint log and the explanation of outcome/resolution are included in Exhibit IV.

Responsible Contractor Certifications:

For the fiscal year 2004-2005, all CalPERS partnerships have certified in writing that to the best of their knowledge, they have complied with the Responsible Contractor policy and more specifically with the roles and responsibilities stated within the policy.

V. STRATEGIC PLAN:

The Responsible Contractor Program is a mechanism by which CalPERS measures its progress in achieving Goal VIII, to manage the risk and volatility of assets and liabilities to ensure that sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Since the Program's inception, a total of \$9,981 billion out of \$13,962 billion in qualifying expenditures have been awarded to Responsible Contractors as defined by the Policy adopted in June 1994. This represents a since-inception compliance of 71.5%, an increase of 4.4% from the prior reporting period. On-going administrative costs are not known, as the partners do not directly bill CalPERS for costs associated with the administration and compliance of the program.

Katherine Fox
Investment Officer

Jose McNeill
Portfolio Manager

Alfonso Fernandez
Senior Portfolio Manager

Michael B. McCook
Senior Investment Officer

Mark Anson
Chief Investment Officer

CALPERS
REAL ESTATE INVESTMENTS
RESPONSIBLE CONTRACTOR PARTICIPATION REPORT
JULY 1, 2004 - JUNE 30, 2005
CORE/NON-CORE PROGRAMS
PARTNERSHIP LEVEL REPORTING

EXHIBIT I

ADVISOR NAME	TOTAL QUALIFYING OPERATIONAL CONTRACTS	TOTAL QUALIFYING OPERATIONAL CONTRACT PAYMENTS	TOTAL QUALIFYING TI AND CAP EXP CONTRACTS	TOTAL QUALIFYING TI AND CAP EXP CONTRACT PAYMENTS	ALL CONTRACTS	ALL PAYMENTS	04/05 TOTAL %
<u>CORE</u>							
CWP	3,187,321	3,187,321	3,097,697	3,097,697	6,285,017	6,285,017	100.0
FWR-ESCH	1,520,260	1,520,260	2,920,476	2,920,476	4,440,736	4,440,736	100.0
FWR-USRP	396,377	396,377	1,949,242	1,949,242	2,345,619	2,345,619	100.0
GID Advisors	2,124,839	2,124,839	6,384,873	6,384,873	8,509,712	8,509,712	100.0
Hines Interest	14,065,653	14,065,653	89,494,776	89,494,775	103,560,428	103,560,428	100.0
LaSalle Investment Mgmt.	1,053,043	1,053,043	929,106	929,106	1,982,149	1,982,149	100.0
RREEF	4,861,971	4,861,971	128,421,452	127,345,440	133,283,423	132,207,411	99.2
SSR Realty Advisors	2,495,356	2,495,356	12,522,908	12,522,908	15,018,264	15,018,264	100.0
SUB-TOTAL	29,704,819	29,704,819	245,720,530	244,644,517	275,425,349	274,349,336	99.6
<u>SELECTED NON-CORE</u>							
AEW	5,085,511	4,741,417	31,145,038	20,538,868	36,230,549	25,280,284	69.8
BUILD	-	-	439,360	439,360	439,360	439,360	100.0
Buchanan Street Partners	886,816	886,816	22,738,526	18,094,154	23,625,342	18,980,970	80.3
CIM	7,123,577	7,066,045	41,754,931	40,482,009	48,878,508	47,548,054	97.3
CUIP	678,495	678,495	157,974,807	153,280,550	158,653,302	153,959,045	97.0
Global Innovation Partners	1,022,523	1,022,523	632,349	632,349	1,654,872	1,654,872	100.0
Hancock Timber Resource	5,445,734	3,838,415	202,960	128,684	5,648,694	3,967,099	70.2
Kennedy Associates	55,037	-	3,244,196	3,244,196	3,299,233	3,244,196	98.3
Pacific City Homes			36,981,248	18,955,897	36,981,248	18,955,897	51.3
Premier Pacific Vinyards			4,464,025	2,993,799	4,464,025	2,993,799	67.1
Shattuck Hammond Partners	1,963,873	1,963,873	39,737,575	39,308,959	41,701,448	41,272,832	99.0
SUB-TOTAL	22,261,565	20,197,583	339,315,014	298,098,825	361,576,580	318,296,408	88.0
COMBINED TOTAL	51,966,384	49,902,402	585,035,544	542,743,342	637,001,929	592,645,744	92.9

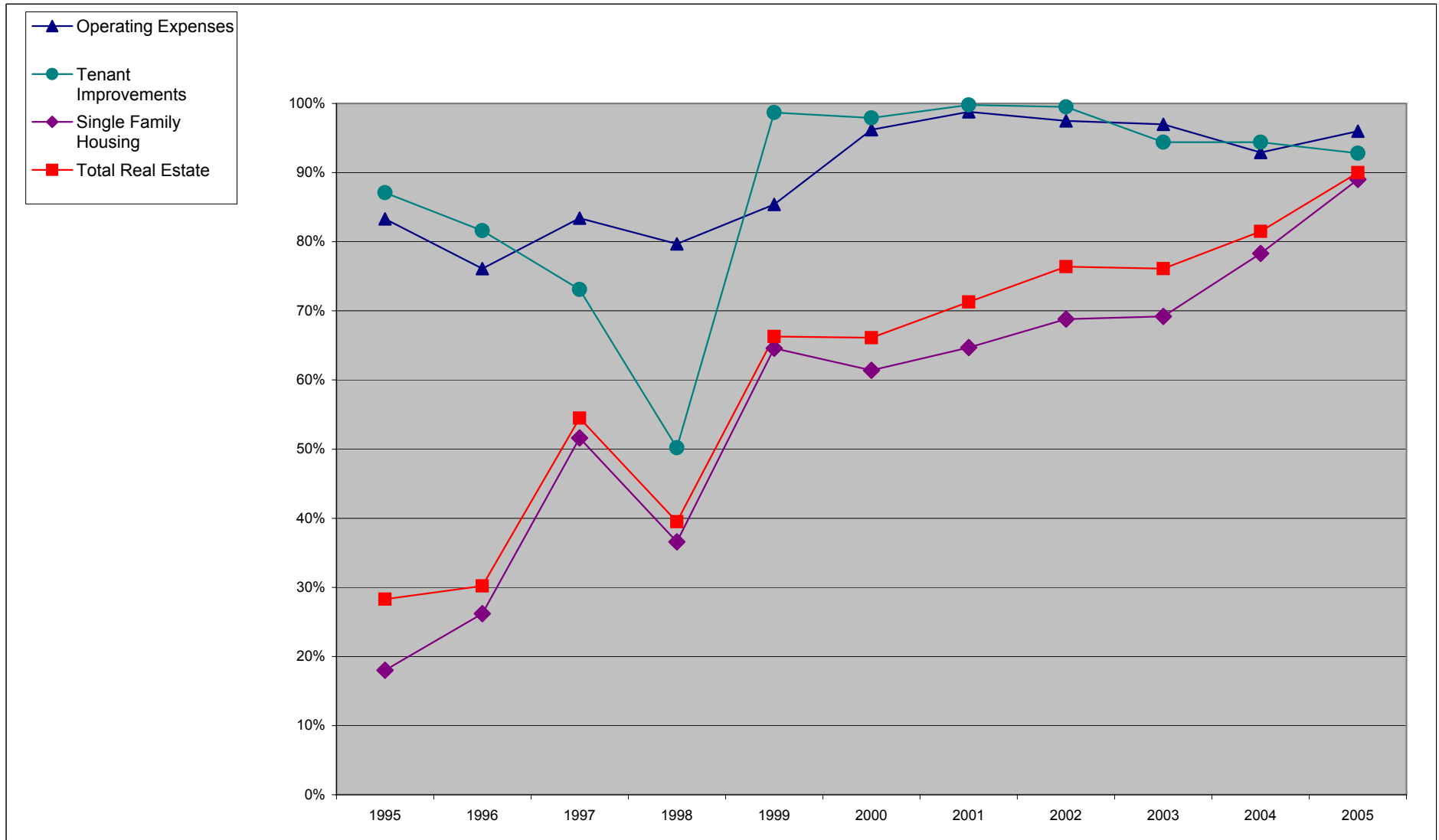
CALPERS
 REAL ESTATE INVESTMENTS
 RESPONSIBLE CONTRACTOR PARTICIPATION REPORT
 JULY 1, 2004 - JUNE 30, 2005
 HOUSING PROGRAM
 PARTNERSHIP LEVEL REPORTING

EXHIBIT II

ADVISOR NAME	TOTAL QUALIFYING CAP EXP CONTRACTS	TOTAL QUALIFYING CAP EXP CONTRACT PAYMENTS	TOTAL QUALIFIED CAP EXP CONTRACT PARTICIPATION PERCENTAGE 04-05
Hearthstone	387,251,119	348,526,007	90.0%
IHP	594,194,384	513,267,633	86.4%
MW Housing	461,099,979	420,170,592	91.1%
Newland Group	174,530,216	165,316,846	94.7%
Resmark	264,932,171	235,593,674	88.9%
RREP	75,584,870	63,868,276	84.5%
Wells Fargo	69,123,786	56,823,935	82.2%
TOTAL	2,026,716,525	1,803,566,963	89.0%

CALPERS
REAL ESTATE INVESTMENTS
RESPONSIBLE CONTRACTOR PARTICIPATION REPORT
SINCE INCEPTION PERFORMANCE
1995-2005

EXHIBIT III



RESPONSIBLE CONTRACTOR COMPLAINT LOG 2004-2005

Notice Date	Nature of Complaint	Property Name	Property Sector	Partner	Partner Contact	Outcome Resolution	Outcome Date
12-Oct-04	On 10/12/04, Terence M. O'Sullivan, General President of the Laborers' International Union of North America (LIUNA) submitted a letter to Michael B. McCook, Senior Investment Officer, Real Estate, lodging various complaints toward USA Remediation Services, Inc.	The Wateview Mixed Use Development Project Rosslyn, VA. A joint venture between CIM, Trizac Properties and the JBG Group (managing partner).	CURE	CIM	Avi Shemesh	CalPERS Legal provided an opinion that CIM is a commingled Fund and therefore is not contractually obligated under the Responsible Contractors policy. However, CIM, out of respect for the goals expressed by CalPERS' Responsible Contractors policy, reviewed the various allegations. Several of the complaints were unrelated to the Waterview project. One of the more serious allegations was non-payment of wages. CIM investigated this charge and concluded that there was no credible evidence to support the complaint. However, in view of the Contractor's prior history, CIM will be reviewing their selection process for all aspects of the construction process. In addition, CalPERS' staff, working in cooperation with LIUNA sent a letter to our partners on 03/07/05. The purpose of the letter was to state that contractors should be evaluated in light of their current and past business practices to ensure that the intent of the policy, which is that contractors selected pay their employees fair wages and benefits as defined by the policy, would be upheld. CalPERS staff recommended various charges to the RCP, which were approved by the Investment Committee as detailed in Attachment I.	16-Feb-05
13-Oct-04	On 10/13/04, Jim Hard, President of the SEIU Local 1000, directed a notice to CalPERS Board Member, George Diehr stating that he had received a complaint from the Carpenters' Union Local 109L concerning allegations that CalPERS was in violation of its own Responsible Contractor Policy by contracting with a non-compliant contractor, Miles Treaster and Associates, for the installation of partition furniture at the CalPERS Lincoln Plaza property.	Lincoln Plaza 400 P Street Sacramento, CA 95814	N/A	N/A	N/A	The Lincoln Plaza property is not a part of the CalPERS Real Estate Investment Program and therefore, not under the direct control or oversight of CalPERS Real Estate Investment Staff. This complaint was forwarded to CalPERS OSSD for resolution.	

RESPONSIBLE CONTRACTOR COMPLAINT LOG 2004-2005

Notice Date	Nature of Complaint	Property Name	Property Sector	Partner	Partner Contact	Outcome Resolution	Outcome Date
25-Apr-05	<p><u>Request for Information:</u> On April 26, 2005, Alberto Torrico, Assembly California Legislature Member, 20th District directed a request for information to Fred Buenrostro, CalPERS CEO, requesting information on whether CalPERS had an investment interest in the Southern Pacific/Amtrak train station redevelopment project located in Oakland California and if so, to please provide specific details on the execution of the construction process to insure that basic labor principals are being exercised and to also verify that the project has a prevailing wage agreement in place.</p>	Southern Pacific Amtrak Train Station 16th & Wood Streets West Oakland, CA	CURE	N/A	N/A	<p>On May 16, 2005, Fred Buenrostro, CEO/CalPERS, responded to Assembly Member Torrico, providing key information on the historic train station project in West Oakland, CalPERS' involvement in the project, the structure of the CalPERS' relationship with Bridge Infill Development (BID) and BID's obligations as a CalPERS partner under the terms and conditions of the Responsible Contractor Policy, dated April 10, 2005. BID has demonstrated to CalPERS staff a clear understanding of the historical significance of the train station and has forged creative solutions supported by the community, including an exhibit for the Pullman Porters Union. BID has carefully studied the development of the parcel of land at 16th and Wood Streets and has determined that the project is best suited for entry level housing. BID has had numerous meetings with members of the community and the project is moving through the City of Oakland's planning process. Specific project information was also provided as follows: BID's involvement in this project is that of a land development investment only. If BID is involved in construction activity as a CalPERS' partner, they would be subject to the terms and conditions of the Responsible Contractor Policy which requires that contractors selected are subject to fair wages and fair benefits as defined in our policy.</p>	16-May-05

2004-2005 RESPONSIBLE CONTRACTOR POLICY UPDATES

03/11/05 – Revised by Investment Policy Subcommittee

- At the October 18, 2004 Investment Committee, staff recommended the complaint procedures be added to the policy as Appendix 2.

04/18/05 – Approved by the Investment Committee

- The Policy Subcommittee, at its 03/11/05 meeting, recommended the addition of Complaint Procedures to the CalPERS Responsible Contractor Program.

06/10/05 - Revised by Investment Policy Subcommittee

- Per staff's continuing discussion with Laborers' International Union of North America and the Service Employees International Union, we are proposing language to clarify the applicability of the responsible contractor policy to certain real estate investments structures while encouraging compliance with the spirit of the RCP whenever possible. New language was added that should expand access to contract bidding information by labor organizations. Language was added to Appendix 1 and 2 regarding disclosure of the Self-Certification Form. Additional language in Appendix 2 was also added to improve communication with a complaining party prior to reaching a final decision. Finally, staff modified the header of Appendix 2 to accurately reflect the appendix's scope covering complaint, investigation, and resolution processes. Wherever the word advisor appears, the word "Partner" was added.

08/15/05 – Approved by the Investment Committee

- The Policy Subcommittee, at its June 10, 2005 meeting, recommended these policies for approval to the Investment Committee.